97-84025-24

Kahn, Otto Hermann

Taxation

New York

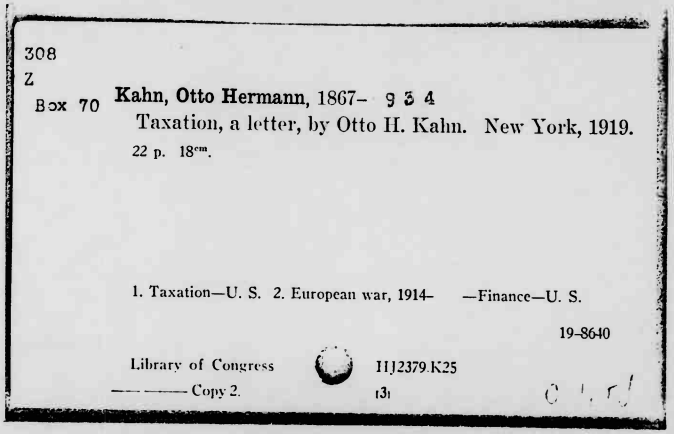
1919

97-84025-24
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD



308
Z
Box 70 **Kahn, Otto Hermann**, 1867– 9 5 4
Taxation, a letter, by Otto H. Kahn. New York, 1919.
22 p. 18cm.

1. Taxation—U. S. 2. European war, 1914– —Finance—U. S.

19-8640

Library of Congress HJ2379.K25
Copy 2. 131

RESTRICTIONS ON USE: Reproductions may not be made without permission from Columbia University Libraries.

TECHNICAL MICROFORM DATA

FILM SIZE: 35 mm REDUCTION RATIO: 10:1 IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 2-13-97 INITIALS: MS

TRACKING # : 21643

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

BIBLIOGRAPHIC IRREGULARITIES

MAIN ENTRY: Kahn, Otto Hermann

Taxation

Bibliographic Irregularities in the Original Document:

List all volumes and pages affected; include name of institution if filming borrowed text.

_____Page(s) missing/not available:_____

_____Volume(s) missing/not available:_____

_____Illegible and/or damaged page(s):_____

_____

_____Page(s) or volume(s) misnumbered:_____

_____Bound out of sequence:_____

_____Page(s) or volume(s) filmed from copy borrowed from:_____

_____

_____Other:_____

_____

X
_____Inserted material: between cover and title page

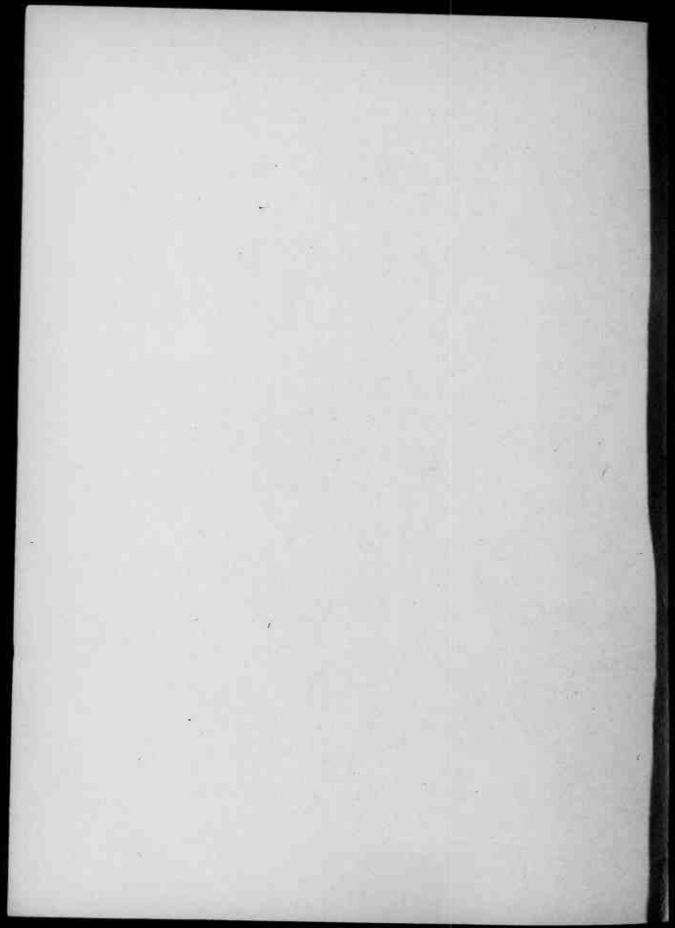
TRACKING#: MSH21643

Box
308
Z
Box 70

Taxation

A LETTER BY
OTTO H. KAHN

NEW YORK
1919



From

OTTO H. KAHN

52 William Street
New York

Taxation

A LETTER BY
OTTO H. KAHN

NEW YORK
1919

13 March, 1920 - C.R.W.

A Letter on Taxation

INTRODUCTORY NOTE

Although the question of taxation will not present much longer the acute problem which it became in consequence of our huge war expenditures, still, for years to come, taxation will have to be heavy, and the wisdom or unwisdom of our taxation policy will materially affect the economic situation of the country for good or evil.

The tax legislation enacted by Congress for the budget of 1918, 1919 and 1920 is an almost perfect example of what taxation measures ought not to be. It flies in the face of economic science, of common sense and equity. It is cumbersome, vexatious and almost incredibly complex.

Sectional and partisan in its conception and incidence, whether deliberately or unconsciously, it imposes burdens upon trade and commerce such as exist in no other country, while it leaves unused other means of raising revenue which would be

socially just and, though barely perceptible, if at all, in affecting the masses of the people, would be vastly productive in the aggregate.

It discourages and lames enterprise and handicaps the American business man in competing in the markets of the world. It diminishes the opportunity for employment, both by its actual and its moral effect. Indeed, I believe such measure of unemployment as exists in this country at present is due more to our taxation laws than to any other single cause.

What those of us who have raised their voices in criticism of these laws protest against is not the fact by itself that they impose unparalleled burdens on capital. No right-thinking man will complain of any burden or sacrifice whatsoever which the needs of the country require.

The gravamen of our charge is that these particular measures, in their levies upon capital, greatly exceed the needs of the situation, apart from having the effect of facilitating governmental extravagance and of militating against that vigorous resumption of business activity and enterprise which the best interests of the country demand.

* * *

I venture to hope that the following letter, even though the measure which was pending at the time the letter was written has since been enacted into law, may not be quite devoid of interest. To the extent that the views and criticisms it contains may be found to be justified, their actuality is not diminished by the existence on the statute book of a measure which is gravely faulty and prejudicial to the prosperity of the country at large.

* * *

I know that I shall be charged with being actuated by self-interest and by a desire to protect wealth. In anticipation of such an accusation it may not be improper for me to say, however reluctant to speak of my personal affairs, that since our entrance into the war, I have not retained any income over and above my family's and my own living expenses; nor do I intend to do so for at least one year after the conclusion of peace, in view of the continuing needs which are bound to follow in the wake of the war. Therefore, from the personal point of view, a reduction of taxation would be of no benefit to me. But, even if it were otherwise, the

question is not what are the motives from which my arguments and conclusions spring, but whether the arguments are sound and the conclusions warranted.

OTTO H. KAHN.

THE LETTER

[*The following letter dated December 26, 1918, was addressed to a correspondent in a middle western city, in reply to a communication commenting on my views on taxation.*]

—O. H. K.

You and I are far apart in our conceptions and opinions. But I have no doubt that you are seeking to promote the welfare and happiness of all the people. If I were not convinced that the policies I advocate would tend to serve that same aim I certainly would not venture to come out in my own name and advocate them publicly. My conclusions may be erroneous, but I believe them to be true according to the best of my conscience and judgment.

You say that my viewpoint is that of Wall Street. If by Wall Street you mean the financial community of New York, which is as honorable, useful and patriotic an element in the sum total of the country's activities as any other, I should be honored to be considered one of its spokesmen.

I believe not only Wall Street, but all unbiased men will assent to the views which I have expressed in the beginning of the speech to which you refer, as follows:

> "Of course, the burden of meeting the cost of the war must be laid according to capacity to bear it. It would be crass selfishness to wish it laid otherwise and fatuous folly to endeavor to have it laid otherwise.
>
> "We all agree that the principal single sources of war revenue must necessarily be business and accumulated capital, but these sources should not be used excessively and to the exclusion of others. The structure of taxation should be harmonious and symmetrical. No part of it should be so planned as to produce an unscientific and dangerous strain.
>
> "The science of taxation consists in raising the largest obtainable amount of needed revenue in the most equitable manner, with the least economic disturbance and as far as possible with the effect of promoting thrift."

You say: "Mr. Kahn is opposed to the heavy taxation of the profits arising solely from the war." In this you are wholly mistaken. I am not only *not* opposed to heavy taxation of such profits, but have advised a *war-profit* tax of eighty per cent, provided it is really a war-profit tax. I have said publicly that

"To permit individuals and corporations to enrich themselves out of the dreadful calamity of war is repugnant to one's sense of justice, and gravely detrimental to the war morale of the people."

I have advocated, as long as needed, income taxation in America, as heavy as exists at present in any of the other great countries—but not heavier.

And I have also advocated and still advocate consumption and similar small taxes—so small in their units that they could not possibly be a burden on "the man in the street," or to affect in any way the activities and consuming power of the country.

If this is the "viewpoint of Wall Street," then the viewpoint of the vast majority of economists, of living and dead authorities on taxation and of the governments and parliaments of England, France, Italy, etc., is the viewpoint of Wall Street.

England, France and Italy are probably quite as democratic as we are. They do not love rich men more than we do. Yet all of these countries have taxes of the kind I advocate. None of them has imposed income taxes at rates rising anywhere near as high as ours for 1919 and 1920. The maximum rate of income taxation in England is fifty-one and two-thirds per cent, and that is the highest rate

existing in any European country. With us, under the pending bill, it is seventy-seven per cent for the current year. And it must be remembered that the Allied countries have been at war for over four years, and we barely a year and a half.

If all nations except Bolshevist Russia have stopped at certain limits of income taxation, the reason is simply that they recognize the unwisdom and economic ill effect of going beyond these limits. They know the old axiom of taxation that an excessive impost destroys its own productivity. They also recognize the fundamental fallacy of the widespread and plausible conception—which you endorse—that the expenditure of money by the Government has or can possibly have the same effect upon the country's progress, prosperity and well-being as the use of his surplus funds by the individual.

Surely the governments in other countries cannot all be wrong-headed or ill-advised or ignorant of the science of taxation or unfair to "the man in the street," and our Congress alone right!

* * *

Apart from being subject to consumption taxes, the British "man in the street" pays income tax; ours does not. British income taxation starts with incomes of $650; ours starts (for married men) with incomes of $2,000. Furthermore, the British tax on small incomes, say up to $5,000, is on the average from three to four times heavier than it is here.

Let it be understood that I make this comparison in order to meet the point you have raised as to "the man in the street" and not in order to suggest that we should follow the British precedent of heavy taxation of very small incomes, which "over there" is doubtless not a matter of choice, but of necessity, but with us, fortunately, is no necessity. I consider our scale of income tax gradation in respect of small incomes as juster than the English scale and greatly preferable to it. But our just moderation in that respect makes all the more conspicuous the unnecessary and harmful extreme to which we go at the other end of the scale.

* * *

I wonder whether you realize the wholly unprecedented burden which the taxation bill, about to be adopted in Congress, imposes on large incomes for

1919 and 1920. Let me give you some examples, and in pondering them please remember that the compelling emergency of war no longer exists.

Let us take the case of a man whose income is..... $500,000
The average Federal Income Tax on this for 1919 is 64.60%, equalling..... 323,000

Leaving, $177,000

From this remainder must be deducted State and municipal imposts of various kinds. There must also be taken into account contributions to charities and to other undertakings for the public good which contributions to all intents and purposes amount to a tax, in the case of every right-minded man, even though a voluntary tax.

It may then be taken that out of $500,000 income, there is left from $100,000 to $150,000 for a man to defray his own and his family's expenses *and to meet the demands of his business*, or otherwise to save and invest.

In the case of earnings as high as $1,000,000 the average federal income tax is 70.30 per cent (i. e. $703,000), which means that after making provision for State and municipal imposts, charitable contribu-

tions, etc., there would be left, say, from $150,000 to $250,000.

Or, let us take the case of a man whose earnings for the year are..... $200,000
Average Federal Income Tax 50.50%, equalling..... 101,000

Leaving, $99,000

There would thus be left, after making provision for State and municipal imposts and charitable contributions, etc., say, from $60,000 to $70,000.

You may say, "Why, that still leaves them more than plenty to live on; a vast deal more than the majority of the people have." Granted! But that is not the point.

You may say, "No one ought to be allowed to earn incomes as large as those you have cited." But again, that is not the point. The time may or may not come when a limit may be placed on what a man may earn. Thus far, no civilized nation has ventured upon such a step. Its consequences and repercussions would be almost incalculable.

At any rate, if we ever want to make so fundamental an alteration in our economic order, the proposition needs first to be exhaustively discussed

before the people in all its bearings, so that its inevitable consequences may be clearly understood, and the people should pronounce themselves upon the subject definitely and unmistakably. Certainly, it should not be sought to be accomplished by indirection and without a direct mandate, in the guise of a tax bill.

The point is that by such taxation, under the existing social and economic system, you kill the goose that lays the golden eggs. You cripple incentive, effort, enterprise, commercial and financial venturing, and prevent *necessary* accumulation for the upkeep and expansion of business and for world trade.

What degree of financial incentive is left to a man, if he gets this kind of a deal: If he makes $100, he gets from $20 to $30, and the Government gets from $60 to $80 in direct taxes (including State and municipal imposts), without counting indirect taxation? Is it a reasonable deal—especially now that the war is over—according to any theory except that of socialism, and do we in this country want socialism with all it would be bound to lead to?

When you once leave the level road of Americanism to set foot upon the incline of international

socialism, it is no longer in your power to determine where you will stop. If you tolerate grave infringement upon the just rights of property, all history shows that you will have laid open to assault the foundations of personal liberty, the institution of marriage, the sanctity of the home, and the principles and practices of religion. It is an axiom only too well attested by the experience of the past that the principal elements of the established order of civilization (of which private property is one) are closely inter-related.

* * *

Nothing is more important for this country, indeed for all countries, under the circumstances created by the war, than increased production. It is the only way to make good the financial and economic ravages of the war and to bring about lastingly better conditions for the masses of the people. It is the only way to intensify the creation of national wealth and to broaden the opportunity for employment.

But increased production necessarily means the use of increased capital. It means that the business man must have a surplus at the end of the year in order to perfect his plant, to enlarge his operations,

etc. Where is he to find that surplus if taxes are so heavy that they leave him little or no surplus after meeting his own and his family's expenses? How is he to hold his own against the European business man if he pays both higher wages and higher taxes? (Let me add that I am wholly in favor of high wages, provided that they are accompanied by adequate output.)

How is he to find markets abroad for his goods under such conditions, except such goods as foreign countries cannot obtain elsewhere? And remember that markets abroad, which means markets for our surplus products, i. e. for that part of our products which we cannot absorb at home, are wanted not primarily for the benefit of business, but for the benefit of our workingmen and farmers.

* * *

Bear in mind that the examples I have given relate to earnings which are not war profits or so-called excess profits. If we take cases in which the war profits tax or excess profits tax applies, the percentage which is left to a man out of his earnings would be still smaller, and the percentage taken by the State still larger.

I have given figures only of income taxes, but you must remember that business men have to pay these huge income taxes on top of the excess profits or war profits taxes. I repeat that I am entirely in favor of the heaviest practicable war-profits tax, but there is no other country as yet which has imposed excess profits taxes as supplementary to war profits taxes, and it would be difficult to invent a form of taxation more calculated to prevent new and vigorous enterprise than that unique method devised by those in charge of our revenue legislation.

If we pay labor the highest wages existing anywhere but restrict capital and enterprise to the lowest return existing anywhere, how can we possibly compete in the markets of the world in the long run, or even maintain our home market against the more favorably situated foreigner? How can we possibly get anywhere by that system but to stagnation and retrogression? How can the individual business man expand his business and increase production and output? And how can labor be abundantly employed and well paid and the small business man and the farmer be prosperous unless business at large is enabled to expand and grow and prosper?

* * *

I do not plead for any plan of taxation that will spare wealth. I do plead for a system and methods which, by taking account of tested and immutable principles which cannot be disregarded with impunity, will preserve the economics of the country on an even keel; a system and methods which, without tenderness for, yet without animus against those who have been materially successful, will adjust the financial burden of government fairly and equitably, without fear or favor, among all those who can afford to bear a part, however small.

I do not mean in this letter to go into a discussion of other features of our federal taxation measure, but I venture to say without fear of contradiction that the overwhelming majority, not only of economists and experts in taxation, but of all those who have given study to the subject, consider *our tax legislation as crude, cumbersome, vexatious, unjust, complex and altogether unscientific. It penalizes thrift and industry and leaves the wastrel and shirker untouched. At a time when every incentive should be given to stimulate effort and promote productive activity, it discourages, disturbs and impedes the American business man and places him at a grave disadvantage as against his European competitor. At a time when America is*

aiming to become a world center, it deters foreign capital from coming here. At a time when our boys are coming back expecting to resume their peaceful occupations, it is a breeder of unemployment.

* * *

I venture to say that it would be an easy task for a committee of, say, twelve men, composed of senators, congressmen, business men, economists, farmers and laboring men, approaching their task free from political, social and sectional bias, to devise a measure which would produce at least as great a revenue as is provided in the taxation bills of 1918 and 1919, would be no less in accord with the dictates of social justice, and yet would weigh far more lightly upon the country. Such a committee would not be unmindful of the manifest propriety of placing the main burden of taxation upon those best able to bear it. But neither would it be unmindful of the many sources of easily collectable, easily borne taxation, such as all other countries have resorted to. Nor would it look upon material success as something akin to guilt.

I believe it is not too much to say that our taxation measures of this and the past year, in spirit

and effect, bear the distinct ear-marks of class and sectional legislation. And the results of class or sectional legislation, whether for or against capital, have always been and are bound to be pernicious.

Very truly yours,

(*Signed*) OTTO H. KAHN.

P. S.—You say, "No man ever *earned* $1,000,000 in one year. Incomes of that size must of necessity be based on a foundation of legislative privilege and have a super-structure of monopoly."

Let us consider the following case as an example:

Through the organizing genius and enterprise of a self-made man, Mr. Henry Ford (not by monopoly, but in keen competition with other manufacturers), the automobile, instead of being a luxury of the few, has been brought within the reach of those of modest means.

The cost of the product has been vastly cheapened. The margin of profit on each automobile sold has been greatly diminished. Wages have been very largely increased, the living conditions of employees greatly improved. Work has been found for a great many more men than were employed before.

In other words, every single human factor concerned in either production or consumption has been advantaged. New wealth has been created at the expense of no one. It cannot be said that it was created by the workingman, except in the physical sense. It was not created by either monopoly or privilege. It was created mainly out of Mr. Ford's brain and at his risk.

By far the largest percentage of this new wealth goes to pay the wages of workingmen and other expenses of the business, but out of what is left, Mr. Ford's share is, by common report, in excess of $1,000,000 a year.

1. Did Mr. Ford *earn* $1,000,000 in one year? If not, how much did he *earn?* By what scale would you measure the proportion due to him of the new wealth created mainly by his faculties?

2. If he had not been allowed to earn the large sums which he did earn, how and where could he have found the means to enlarge and improve his factory, so as to make possible an enterprise which immensely cheapened the product to the consumer and largely increased the wages to the workingman and the opportunity for employment? Is there any instance where communistic or even merely co-

operative undertakings have produced similar results? Is there any instance where governmental management has produced similar results?'

O. H. K.

MSH 21643

END OF
TITLE